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MANUAL TO AN INTRODUCTION TO ECONOMICS

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MANUAL TO AN INTRODUCTION TO ECONOMICS

ALTHOUGH the teaching of economics in high schools is usually relegated to the commercial department, the subject is not purely a commercial one. In the preparation of the Introduction to Economics this fact has been constantly borne in mind. It has been the effort of the author to explain in as simple a manner as possible the organization of the present economic system. We all admit that the system has many and grave defects, but these defects cannot be removed unless the system is first understood.

The object of teaching economics, therefore, is to provide the student with a knowledge of the manner in which his economic life is controlled and directed, so that when he leaves school for the wider life of the university and of the world at large there will be at least an elementary understanding of the problems which face all of us.

It is important that the teacher should understand this purpose, for otherwise the teaching might be directed toward unimportant matters instead of concentrating on principles.

It is hardly necessary to say that no teacher can hope to treat the subject of economics satisfactorily

with a knowledge gained merely by perusal of the textbook. The bibliography given at the end of the book is more for the use of the teacher than for the student, and the first suggestion that the author would make to the teacher is that he or she should make a careful study of one or two of the larger works mentioned in the bibliography. Probably the most satisfactory would be either Ely's or Seager's text. In regard to the individual chapters of the book the special works mentioned on each topic need not be read in entirety. A glance at the table of contents of each will be sufficient to suggest which chapters should be specially studied.

With this preface we can now turn to the various chapters of the text itself.

THE MEANING OF ECONOMICS

The object of this chapter is to explain the nature and scope of the subject and the method by which it may be studied. Too much stress should not be laid on the method of mathematical logic treated in the passage describing the syllogism. If a course in logic is given in the school an opportunity for correlation will be presented, but otherwise the bare idea of the method is all that is necessary. The essential points are, the meaning of the term *economic law*, and the relation of economics to other social and physical sciences.

THE THEORY OF ECONOMIC DEVELOPMENT

In this chapter an attempt is made to emphasize the fact that modern institutions are a development

of those of former times. It is extremely important that the student should recognize that all change is a development conditioned by the past — that new ideas do not spring, Minerva-like, full born from the brain of Jove, but that they are the result of thought devoted to earlier and existing conditions and attempts to adapt institutions and ideas to new conditions as they arise.

Throughout the book this idea of development has been insisted on and many opportunities are left for the teacher to illustrate this. Particularly should there be correlation with the history studies in this connection, as no economic truth can be fully appreciated without a knowledge of the history which has led up to its discovery.

THE COMPETITIVE SYSTEM

The main point to be emphasized in this chapter is the change from a period of regulated, to a period of unregulated industry, with a further period of regulation from a new point of view. *Competition* is a word which is frequently used without any attempt at definition, and this chapter attempts to limit the meaning in such a way that the student can grasp the nature of the competitive system satisfactorily.

The student must be brought to understand that the competitive system is, in practice, a rather haphazard method of satisfying the desires of human beings and that a quasi-philosophical justification has been given to the competitive idea. He must see that this justification is not nearly so strong as would at first (and from a purely logical point of view) appear. Many

facts referred to later on in the book will illustrate this, and the teacher can readily supplement these from his own experience. The modification of the competitive system can be illustrated from each locality, however small it may be, and the student should be encouraged to find his own illustrations.

THE MEANING OF PRODUCTION

The next two or three chapters are of extreme importance in the study of the subject, for in a way they provide the language necessary for its discussion. Colloquial language is so frequently loose and undefined that in any scientific discussion wherein common words are used an accurate definition is essential. Just as in teaching mathematics it is necessary that a student know the meaning of such terms as *straight line*, *right angle*, *equation*, and so forth, so is it necessary in studying economics that he know the meaning of the terms *wealth*, *production*, *consumption*, and so forth. And it is the more important because the words used technically in economics are also used colloquially.

Much is left to the teacher in the way of illustration, and each particular locality will furnish illustrations which will appeal to the students in a better way, perhaps, than those the author has used in the text.

THE AGENTS OF PRODUCTION

The remarks regarding the previous chapter apply to this one also. The important points to be treated are, the nature of capital, and its various forms, and, in particular, the immense importance of the principle

of the division of labor. This again can be illustrated by the teacher to an unlimited extent.

THE LAWS OF PRODUCTION

Before discussing this chapter it would be well to recapitulate with the student the idea of economic laws so that the explanation given in the first chapter may be reënforced by the concrete material in Chapter VI.

The relation between production and consumption should be made absolutely clear and then the laws of increasing and diminishing returns should be elaborated until there is no doubt left as to their meaning. Their importance can be emphasized as well in agricultural as in industrial communities and each type will furnish its own illustrations.

THE ORGANIZATION OF PRODUCTION

This chapter is of great value in the commercial work for it deals to a large extent with those forms of organization which are most familiar to commercial students. Much of the material may be correlated with other studies in the commercial department.

The idea of development is very clearly presented in the chapters dealing with this subject and it should be the aim of the teacher to impress on the student the fact that each development takes place because of the defects in existing organization. This will help to emphasize the fact that the present system is in a state of flux and that new developments are to be expected. It should provide a basis for later discussion of the suggestions for industrial reconstruction and for a full and intelligent appreciation of the problems

which confront statesmen and business men throughout the world.

VALUE AND EXCHANGE

The succeeding thirteen chapters deal with the problems of exchanging the commodities and services that have been produced. In exchange the problem of value is naturally of commanding importance. It is important that the student realize the difference between the ethical and the economic ideas of value. There is no necessary antagonism between the two, but the points of view are different and the author has no wish to detract from the importance of the ethical standpoint. The teacher will find in the introduction to the chapter on *Value*, by John Stuart Mill in his *Political Economy*, a very satisfactory treatment of these differences and of the necessity for confining the economic treatment of value to one point of view.

The marginal idea must be carefully illustrated throughout this chapter, especially the idea of marginal utility, for the conception is fruitful of meaning in later discussions.

Great stress must be placed on the laws of supply and demand and particularly the *limitations to the application of these laws*. The graphic method of representing the working of these laws will be found most useful, and the students should be encouraged wherever possible to construct graphs themselves. A useful correlation will be found in work in mathematics and in the physical sciences, but care should be taken to see that the work does not become mechanical.

MONOPOLY AND MONOPOLY PRICE

This chapter is worthy of careful consideration for many of the present day problems are intimately connected with the fixation of prices by monopolies. Again there is a possibility of correlation with history which should not be neglected by the teacher, for, wherever possible, the facts stated should be connected with facts learned in other studies. There cannot be too many points of contact, for it is of the utmost importance that the students should recognize the intimate inter-relation of economics and all phases of life.

MONEY

Properly approached this subject should be found one of the most interesting just as it is one which has been more scientifically discussed than any other economic subject. Illustrations of primitive money and money systems abound in American history from Indian wampum belts to Virginian tobacco and to Confederate currency.

Many of the problems of the high cost of living are closely associated with inflation of currency and many crudely thought-out ideas of reforming currency methods are suggested from day to day. The discussion of the theory of money should help the students to form an intelligent opinion of these suggestions.

THE BANKING SYSTEM

It will be noticed that the whole treatment of banking in the text has been from the functional, rather than from the technical, point of view. The author has felt

that the high school student who is interested in the technique of banking should study from a special text,¹ but even the technical student should have a thorough grounding in banking functions. The idea that the banks provide a lubricant for exchange — or a sort of storage battery for credit — should be emphasized. In all problems of exchange the banking function is of extreme importance.

The treatment has been on the historical method so as to bring out once more the idea of development and the means whereby one system or institution succeeds another, rising, as it were, out of the failures of the preceding methods.

Special attention should be devoted to the Federal Reserve System, for it represents the result of the best banking knowledge and ability in the world, and has attracted attention from all business men throughout civilization. No claim has been made that the system is perfect, but an effort has been made to show exactly how the defects of the previous system have been acknowledged and remedied, and the whole discussion provides an illustration of the method of attacking an economic failure.

THE NATURE AND MECHANISM OF TRADE

This chapter is merely illustrative. The idea was to explain the function of the different occupations in satisfying the requirements of human beings. Necessarily it is incomplete, but it can be rounded into greater completeness by illustration and develop-

¹ Holdsworth's *Money and Banking* is probably the best.

ment by the teacher. It might be usefully correlated with a study of business organization.

INTERNATIONAL TRADE AND FOREIGN EXCHANGE

America has leaped to the forefront in the field of foreign trade during the past five years, and foreign trade is on the lips of every business man. Hence a knowledge of the essential principles is of great importance to every one who hopes to enter into a business life. A great deal of unnecessary difficulty has been imparted to the study of foreign exchange. Undoubtedly the subject has difficulties to those who do not possess the mathematical mind. The essential principles, however, are not difficult to understand and in practice the technique is fairly easy. The author hopes that the explanation given in his chapter will be sufficient, but the teacher is urged to read either Franklin Escher's book or that of Hartley Withers in order to supplement the matter given in the text.

PROTECTION AND FREE TRADE

Sufficient material is given for the basis of class discussions and even debates on the respective merits of tariff systems, and it is suggested that the teacher use the debating method to develop the arguments pro and con. Additional material may be obtained from the works mentioned in the bibliography.

INVESTMENT AND SPECULATION

The point to emphasize in this chapter is the mechanism whereby the flow of capital is maintained.

In teaching the subject to commercial students the manner in which stock exchange speculation is carried on may be dealt with more fully, but in all cases the important point for the student is the part which speculation and investment play in the economic life of the community.

RENT, INTEREST, AND PROFIT

The theory of rent is one which is given very careful treatment in more advanced texts. It seems to the author inadvisable to deal with this somewhat difficult theory in teaching the subject to young students. Sufficient material is given in the text to form a good basis for more advanced study. The teacher should make clear the fact that the whole of this chapter deals with functional and not with personal distribution. Local studies in the application of the theory of economic rent can readily be made. All students are familiar with the term *rent* itself, and the variations in rent of farms or houses in the locality in which the student lives can be used to illustrate the theory. The analysis of *profits* is worth while treating carefully, as much modern discussion turns on the question of the relation of profits to industry.

THE PERSONAL DISTRIBUTION OF WEALTH

The distinction between *personal* and *functional distribution* should again be made clear. The teacher should first of all avoid the consideration of questions of ethics, and show that the present economic system leads to the development of certain strong instincts which lead to the pursuit of wealth, and then show how

great fortunes are made. This question is the more important as there are many books, largely biographical, which stress the importance of such things as personal character, economy, and savings as the causes of great wealth. Without wishing for a moment to minimize these qualities and habits, the author would prefer to enforce the statement that the essential cause of great individual wealth is the possession in one form or another of monopolistic privileges.

The causes of poverty should be discussed at least as fully as the causes of wealth. The two are, of course, bound up in one another and the complementary relation should be established as clearly as possible.

The analysis of the incentives to work is worthy of careful teaching. The teacher will find that his pupils are frequently obsessed with the idea that the only stimulus to working is the desire to gain money. While this stimulus cannot be neglected, it is of great importance that the student should realize that the money stimulus is so prominent only because of the quasi-competitive system which at present governs economic life, and that even under the present system other stimuli are at work.

THE REMUNERATION OF LABOR

This chapter is partly theoretical and partly descriptive. The emphasis should be placed upon the descriptive portions so that the student may know what are the various systems by which men are paid for their labor, and why sometimes one is preferred to another. A complete discussion of the theory of wage payments is inadvisable with beginners.

THE ORGANIZATION OF LABOR

This chapter is one of the most important in the book. No question commands such great attention as the relations between the labor unions and the public, as well as their relations with employers. The subject has been treated sympathetically, although impartially. It must be left to the teacher to develop the details in such a manner that the student may understand some of the local, as well as national, problems. The teacher, however, should point out very carefully the fallacy of reasoning from insufficient data. He will frequently find that the students know of a particular case which seems to controvert some statement made in the text. In the enormous mass of details both of organization and practice it is impossible to consider the individual case *unless it is typical*. The discussion of the right to organize should be very careful and complete, in order to show the student that unless we are to revert to the chaos of the early part of the nineteenth century, this right must be allowed, and from this basis the variety of the forms of organization should be developed. The question of labor-union methods should be carefully studied not only in the light of objective facts, but also having regard for the psychology both of individuals and of groups.

DISTRIBUTION AND THE LABOR PROBLEM

The discussion of this subject in the text is admittedly inadequate but an adequate discussion should be postponed to a time when the student is more mature and can devote much more time to the subject.

It may easily happen that a coöperative store is opened in the neighborhood of the school, and in that case the teacher would be well advised to obtain some of the literature circulated from the store for purposes of discussion in class. The same may be said of schemes of profit-sharing. Most firms which have such schemes in operation are quite willing to give teachers an outline of their scheme and details as to its working. Such discussions of actual coöperative or profit-sharing methods will help to give life to the study and will undoubtedly increase the interest of the students.

THE ECONOMIC FUNCTIONS OF GOVERNMENT

The analysis of governmental economic functions given in the text is somewhat unusual, but the author feels that it has some advantages. Every local government, however small, possesses some of these functions and there will be endless opportunity to select local problems for discussion. The teacher, however, should not confine himself to discussion of local problems. To take one example only, the question of government ownership or control of the railroads or the telegraphs will provide much fruit for discussion; this should prove of real value to the student in after life when these problems become matters about which he has to exercise his franchise. No attempt has been made to prejudice the student one way or another, and in discussing the subject the teacher is urged rather to be a leader in discussion than to make any *ex cathedra* utterances.

PROPOSALS FOR SOCIAL RECONSTRUCTION

This is the most important chapter with which the student must deal. The author has not attempted to give any definite conclusions but has only tried to show the particularly strong points in favor of, or against, certain suggestions. He has also, however, tried to introduce the philosophic attitude toward the suggestions. Unfortunately it is extremely difficult to get at the actual ideas of this group or the next. Sometimes the expositors are opponents who do not do justice to the ideas, sometimes they are proponents who have not fully grasped them; and occasionally they are enthusiasts who are apt to become rather rhetorical than truly expository. Again many of the terms by which reformers describe themselves have become through habitual, but often wrong usage, opprobrious in themselves and are used as epithets instead of descriptive adjectives. This must be carefully avoided by both teacher and student. Terms such as *radical*, *socialist*, and so forth, should first of all be carefully defined and then discussed with full regard to the definition.

Every one with any knowledge of the evils of existence for far too many people realizes the fact that our present system of economic organization is far from being perfect. It is foolish, therefore, to denounce any suggestion for improvement until that suggestion has been examined with a free and open mind. Many suggestions will be found absurd. Many will seem hopeless. But out of the whole group there will undoubtedly rise the germs of the system which shall

succeed the present. Improvement is only possible after careful, open-minded discussion of both problem and suggested solution. The essential aim of the text has been to provide a ground for such careful discussion, so that those students who have studied the subject of economics will be able to guide the greater number who seem to regard economic knowledge as a birth gift of every man.

THE QUESTIONNAIRE

The questions which follow are suggestive only. It is not the intention of the author in any way to restrict the teacher as to the nature or number of the questions which will help him to discover the extent of the student's knowledge.

The questions can all be answered by a study of the text without any additional material, but it is possible that in many cases fuller answers would result from a perusal of some of the works suggested in the bibliography. The extent to which the bibliography is used will depend largely upon many circumstances out of the teacher's control — time to be devoted to the subject in the curriculum, library facilities in the school and in the public library, and so forth. A wide use of the works suggested, however, will make the subject of more vital importance to the student and will give him a better appreciation both of its difficulties and of its value.

The teacher must remember that the text is only what it pretends to be an "Introduction to Economics."

QUESTIONNAIRE

CHAPTER I

1. What is the essential problem dealt with by economics?
2. Define *economics* and explain your definition.
3. Why is economics termed a social science? With what other sciences is it related?
4. Define the term *economic law*. Distinguish the economic law from the act of a legislature. Illustrate the difference.
5. How are economic laws formulated?
6. Explain the deductive and inductive methods of reasoning.
7. Construct an argument in the form of a syllogism.
8. Why does the economist seek to discover or establish economic laws?
9. What is the relation between economics and ethics? Do the two sciences overlap one another?
10. Does economics teach one how to become rich?

CHAPTER II

1. How is economic history distinguished from general history?
2. What is meant by a *stage* of development?
3. State and discuss the four chief stages of development.
4. Give examples of people who are still living in the hunting stage, the pastoral stage, and the industrial stage.
5. Why is it possible for two stages of development to exist at the same time and in the same place?
6. What is an economic unit?
7. How far does the economic unit coincide with the political unit?
8. In the development of society, what difference can

be noted between the early improvements and the progress of the present day?

9. What is meant by a dynamic civilization?

10. Illustrate the fact that the development of civilization is accompanied by an increase in the needs of man.

11. What are *conventional* necessities?

CHAPTER III

1. How does the modern idea of economic freedom differ from the medieval ideas of controlled industry?

2. How did the idea of economic freedom arise?

3. State and explain the theory of production for profit as the most satisfactory system of economic organization.

4. What was the Irish rack-renting system? How do the effects of this system help to prove the correctness of the theory of production for profit?

5. Explain the idea of Competition.

6. Is there such a thing as competition between capital and labor?

7. Labor is sometimes treated as if it were a commodity, like wheat or coal. Is this a satisfactory treatment? (See Chapter XXVI.)

8. What are the defects of the competitive system?

9. What is meant by *laissez-faire* and *laissez-aller*?

10. How is the harshness of the competitive system modified at present?

11. Is modern regulation of industry of the same character as the medieval regulation?

12. Why are factory acts necessary?

13. What is the difference between individual and collective bargaining?

14. Define the term *freedom* after considering the subjects treated in this chapter.

CHAPTER IV

1. How does custom affect a man's idea of what is necessary to life?

2. How would you distinguish between a high and a low state of civilization?

3. Define the term *wealth* and analyze your definition.

4. What was Ruskin's definition? Why is it unsatisfactory from the economist's point of view?

5. Give an illustration of a form of wealth, ordinarily free to every one, becoming economic wealth.

6. What is a *utility*? Distinguish between utility and usefulness.

7. "In the satisfaction of our desires we consume utilities." Discuss this statement.

8. Is production determined by consumption or *vice versa*? Justify your answer by a full argument.

9. Define *Production*. Explain your definition.

10. Which of the following, if any, may be regarded as producers; what do they produce: a railroad ticket collector, a moving picture actress, a member of Congress, an advertising agent, a pearl diver, a grocer, a dentist?

CHAPTER V

1. Define and discuss the term *land* as an agent of production.

2. What is meant by labor?

3. Define the term *capital*. Illustrate the use of capital.

4. "Whether a particular form of wealth is capital or consumer's wealth depends upon the use to which it is put." Discuss and illustrate this statement.

5. Which of the following goods may be termed capital goods:

(1) A printing press, owned by a manufacturer of printing machinery, in transit to a newspaper company?

(2) The same press in the ownership of the newspaper company?

(3) An electric washing machine in a private house?

(4) Coal in a steel mill?

6. Define fixed and circulating capital.

7. Of the following capital goods, which are fixed and which circulating capital: coal in a steel smelter; lumber in a furniture factory; a factory building; paper in a newspaper office; a printing press in the same office; a pile driver in a shipyard; steel plates in a shipyard; coconut oil in a margarine factory; a cream separator in a dairy?

8. Is a treasury note for \$1000 capital? Justify your answer.

9. Discuss the value of the principle of division of labor.

10. How does the development of habits affect this principle?

11. Give a brief explanation of the scientific organization of labor.

12. How is specialization of industry a determinant of the localization of industries? Illustrate.

CHAPTER VI

1. How is production stimulated by profits?

2. Production is secured through the application of capital and labor to natural resources. Explain this statement.

3. What is meant by a *dose* of capital and labor? Is the *dose* an actual fact or a hypothetical conception?

4. State and illustrate the law of increasing returns.

5. Where would you expect to find the best illustration of the working of this law — in agriculture or in industry? Why?

6. State and illustrate the law of diminishing returns.

7. Why is this law sometimes termed the law of diminishing productivity?

8. In Figure I, if the normal return were reduced to thirty bushels, what would be the marginal dose of capital and labor?

9. John Brown is running a small factory at a normal profit of five per cent. The law of increasing returns is in operation in his business. Will it pay him to increase his capital by borrowing money at five per cent? Why? When should he cease to borrow?

CHAPTER VII

1. Distinguish between Business and Industry.

2. Give a short account of the method of early foreign trade.

3. How did the Venetian and Genoese fleets differ from the fleet of the Cunard Line?

4. What was the reason for the early formation of partnerships?

5. Describe the organization of a regulated company.

6. What was meant by a Chartered company? Why was a charter necessary?

7. State and discuss the advantages and disadvantages of partnerships.

8. Describe the early form of Joint Stock companies.

9. Discuss the principle of limited liability.

10. How is a modern corporation governed?

11. How does a bond holder differ from a stock holder?

12. What has been the effect on business of the growth of corporations?

13. How has the corporation organization improved banking business?

14. Discuss the advantages of department and chain stores.

CHAPTER VIII

1. Give an account of early agriculture.
2. What is meant by the three-field system? Was it an improvement on the biblical method?
3. What is the difference between communal tillage and communal ownership?
4. What difficulties were placed in the way of progress by communal tillage under the three-field system? How were these difficulties overcome?
5. Discuss the difference between intensive and extensive cultivation. What circumstances determine the use of the one or the other?
6. Modern farming makes a much greater use of fixed capital than the earlier methods. Explain this.
7. Discuss the relation of manufacture to agriculture in early times.
8. Give a short account of the Gild system.
9. How did the Gild system break down?
10. Describe the evolution of the factory system. How did it differ from the domestic system?
11. What is the relation of the increased use of fixed capital to the principle of division of labor?
12. What are the advantages and disadvantages of the factory system?
13. Describe carefully the factors to be considered in fixing the location of an industry.
14. What are the duties of the production manager, the office manager, and the sales manager?
15. Describe and discuss Scientific Management.

CHAPTER IX

1. Why has unrestrained competition failed?
2. In what respect does the corporation method of organization tend to eliminate or modify competition?

3. How are price agreements used to eliminate competition? Is this a satisfactory method?

4. What steps have been taken or suggested to enforce obedience to price agreements?

5. Give an example of the working of a price agreement.

6. Explain and illustrate the Kartel. What are Selling Bureaus?

7. Describe the method of the pool and discuss its difficulties and advantages.

8. What is a monopoly? Is it possible for all occupations to become monopolies?

9. What is the colloquial meaning of the monopoly form known as the *trust*? What is the technical meaning? How did the idea originate?

10. Describe the system of the Holding Corporation.

11. What is a *proxy* and how is it used?

12. How much stock must be held in order to control a corporation?

13. What is the essential aim of all monopolies?

14. Discuss the effects of monopoly organization.

15. Ought monopolies to be controlled by Government? Why?

16. State the arguments in favor of monopoly organization as strongly as possible.

17. Reply to the arguments in the answer to question 16.

CHAPTER X

1. Discuss the term *value* as used in ordinary speech and as used in economics.

2. Why is it necessary to limit the meaning of the word in economics?

3. Explain the law of diminishing utility. Sum up your explanation by a concise statement of the law.

4. Explain the meaning of the term *marginal utility*. Give a concise definition of the term.

5. What is the difference between a given satisfaction or utility at present and in the future?

6. Children and savages are said to "discount future satisfactions at a high rate." What is meant by this? Why should there be a difference between the child or savage and the civilized adult?

7. Show the difference between desire and demand. What is meant by *effective* demand?

8. Define the term *price*.

9. What is the effect of a change of price on the effective demand and supply of a commodity?

10. Explain the phrase "intensity of demand."

11. Explain and illustrate the term *elasticity* of demand and supply.

12. What effect does the presence of substitutes have on the elasticity of demand for a commodity?

13. What is the meaning of *latent* demand?

14. What difference is usually seen in the elasticity of demand between necessities and luxuries? Explain the difference.

CHAPTER XI

1. What is meant by a strong and a weak buyer or seller? Illustrate.

2. Using Figure III as a basis, how many tons of coal would be purchased at the following prices: \$3.00, \$7.00, or \$17.00?

3. What would be the consumer's surplus at each of these figures?

4. Using Figure IV as a basis, state the available supply at the same prices.

5. What would be the producer's surplus in each case?

6. From the following data construct supply and demand curves and indicate the market price as in Fig. V.

Supply Demand for Potatoes in Tons

DEMAND	PRICE, CENTS PER LB.	SUPPLY
50,000	1	4,000
40,000	2	8,000
35,000	4	12,000
32,000	5	18,000
25,000	7	24,000
18,000	10	30,000
12,000	15	35,000
8,000	20	40,000
5,000	25	50,000

7. Define the term *market* and explain your definition.

8. What is meant by Normal Price?

9. What relation exists between Normal Price and Market Price?

10. What assumptions are necessary before one can argue that market price is determined by the interaction of the laws of supply and demand?

11. What is meant by the flow of capital?

12. How are the upward and lower limits of prices affected by the flow of capital?

CHAPTER XII

1. Why is it important that prices should be stable?

2. Is there any difference in principle between the Elizabethan monopolies and a modern patent or copyright?

3. What justification is there for the granting of copyrights and patents?

4. How does a patent differ from a trademark?

5. Would you consider the granting of a copyright in a trademark justifiable? Why?

6. Discuss the question of monopoly of location.

7. What is the essential purpose of monopoly?
8. Define *monopoly*. Explain your definition.
9. Does monopoly control inevitably cause an increase in price?
10. How is a monopoly price fixed?
11. What are the upper and lower limits of monopoly price?
12. What is meant by latent competition?
13. How is latent competition affected by the necessity of large expenditures in fixed capital?
14. Is a trust or a holding corporation necessarily a monopoly?
15. How is the price of a product, monopoly controlled, affected by its elasticity of demand?

CHAPTER XIII

1. What is *barter*? Illustrate.
2. What are the chief disadvantages of barter exchange?
3. Would it be possible to carry on all our present economic activities under a system of barter?
4. Name ten commodities that have been used as money.
5. The early colonists of Virginia used tobacco as money. What disadvantage would you think existed with this currency?
6. Give a list of the qualities desirable in a money commodity.
7. Which of the qualities would you consider to be essential? Why?
8. Why do you think some qualities, while desirable, are not essential?
9. What disadvantage do the metals possess as currency?
10. What is a coin? How did coins originate?
11. Explain the terms *milling* and *sweating* as applied to coins.

12. What is the purpose of an alloy?
13. Explain the method of debasing coinage.
14. What effects result from excessive debasement of coinage?
15. Explain payment by *tale*.
16. Why does debasement of coinage affect poor people more than rich?

CHAPTER XIV

1. Explain the meaning and origin of the term *seigniorage*.
2. Can the assay charge of the United States be considered seigniorage?
3. State Gresham's Law and give a full explanation of its working.
4. What is meant by subsidiary coinage? Why is it necessary?
5. Why does not Gresham's Law act to drive token money out of circulation?
6. Is there any necessary relation in commodity value between a gold eagle and a silver half-dollar; or a nickel?
7. What is meant by *bimetallism*?
8. How does Gresham's Law operate to prevent the continuance of a bimetallic system?
9. Silver dollars are legal tender in the United States for any amount. So, also, are gold coins. Why do not the silver dollars drive out the gold, or vice versa, according to Gresham's Law?
10. Upon what do the various forms of paper money depend for their value?
11. Define the term *price*.
12. How does the supply of gold affect price?
13. How can the value of gold be stated? Can you speak of fluctuations in the price of gold?

14. What effect have changes in the rapidity of circulation on the purchasing power of money?
15. Explain the equation $P = \frac{MV + M'V'}{T}$ (Fisher's Equation). What do each of the terms mean?
16. Why are there fluctuations in the demand for currency?
17. What do you mean by an elastic currency?
18. Why is an elastic currency necessary?
19. What is *Fiat Money*? Give an example.
20. Define *currency inflation*. Why should currency inflation be avoided?
21. Explain the use of index numbers to estimate changes in the value of money.

CHAPTER XV

1. What is meant by *credit*? Give an example of a credit transaction.
2. Why must credit be organized?
3. "Banks are the lubricants of commerce." Explain this statement.
4. Are modern banks direct descendants of the Assyrian, Greek, and Roman Systems?
5. Describe the evolution of the deposit system.
6. Why should interest be paid on deposits? Would there be bank deposits if no interest were paid?
7. Describe the evolution of the bank loan.
8. What was the origin of the bank note?
9. Explain how currency is eliminated by means of the bank deposit.
10. Why are deposit reserves necessary?
11. Explain the operation of the clearing house. What is the function of the clearing house?
12. What are meant by *Debtor* and *Creditor* Banks in the Clearing House?

13. If a bank is constantly a debtor bank, what will be the result?
14. In what forms may a bank loan be made?
15. Why is the deposit loan the principal form?
16. What is an accommodation loan? Illustrate.
17. What is a capital loan? Upon what security will a bank lend money for capital purposes?
18. Define *Commercial Loan*. Illustrate the making of a commercial loan.
19. What is a discount? Illustrate.
20. If a man obtains a loan by pawning a watch, which type of loan is represented?
21. How does a banker profit on lending money?
22. When a bank makes a loan in deposit form, no actual money is involved. The loan is "an extension of credit." Explain this.
23. What is the value of the discount system?
24. How does a bank note differ from a private promissory note?
25. How are bank notes safeguarded against depreciation?

CHAPTER XVI

1. State the chief drawbacks of the banking system of the United States previous to 1863.
2. What three problems faced the Government which passed the National Banking Act?
3. Why did the Act place limitations on the amount of capital required for a bank?
4. Why should more capital be required for a bank in New York than for one in El Paso, Texas?
5. Why did the Government insist on the banks purchasing bonds with their capital?
6. What compensation did the banks receive for this expenditure?

7. Distinguish between Central Reserve City banks, Reserve City banks, and Country banks.

8. Explain the method of keeping reserves in each of the three classes.

9. Why were bank examinations instituted?

10. How was the right of issuing bank notes limited to National banks?

11. What is a bank note?

12. What two points must be considered in determining the security for a note?

13. Why should a bank note be safeguarded by the Government?

14. How are holders of National bank notes secured as regards the ultimate redemption of their notes?

15. What provisions are made for immediate redemption?

16. Were the National bank notes any improvement on those issued before the passing of the Act? Why?

17. National bank notes are perversely elastic. Explain this fully.

18. What advantages had the reserve system of the National Banking Act on the unregulated reserves of the previous period?

19. Do you think it is the business of the Government to regulate reserves? Why?

20. Criticize the method of keeping the reserves under the National Banking Act.

21. Why do banks maintain deposits with each other?

22. What is a call loan?

23. When and for what purposes are most call loans made?

24. How are call loans usually secured?

25. What happens to the security during a crisis or panic?

26. How does the panic condition affect the reserves deposited in the Central Reserve City banks?

27. Was it possible to "mobilize" the cash reserve in the vaults of the individual banks?

CHAPTER XVII

1. How may reserves be controlled by individual banks?

2. What effect is produced on business conditions by a sudden stoppage of loans?

3. How may the discount rate be used to increase reserves?

4. What are re-discounts? Why are they a valuable method of utilizing available capital?

5. Describe the organization of the Federal Reserve Board.

6. How are the Federal Reserve Banks capitalized?

7. How are the directors of the Federal Reserve Banks appointed? Give reasons for the method.

8. How are the profits of the Federal Reserve Banks distributed?

9. What is the distinction between time and demand deposits?

10. Was this distinction made, as far as reserves are concerned, under the National Banking Act?

11. Why should there be a difference in the reserves for time and for demand deposits?

12. State the proportion of deposits (demand and time) which must be maintained as reserve in the three classes of banks.

13. How are the reserves kept?

14. How does the Federal Reserve System provide a re-discount market?

15. What types of loans are re-discountable under the Federal Reserve Act?

16. What influence is exerted by this re-discount process in controlling panics and crises?

17. How do commercial crises arise?
18. How does the Federal Reserve Bank use its discount rate to maintain its own reserves?
19. What proportion of deposits must be kept as a reserve by the Federal Reserve Bank?
20. Is there any distinction between demand and time deposits in the Federal Reserve Bank?
21. Explain the method of issuing Federal Reserve notes. What security is used to safeguard the issue (a) ultimately, (b) immediately?
22. Estimate the risk of failure to meet the commercial paper at maturity.
23. What titles are given to the Chairman and Vice Chairman of the directorate of a Federal Reserve Bank?
24. What are the functions of these two officers?

CHAPTER XVIII

1. Why are Federal Reserve notes a good form of elastic currency? Explain fully.
2. Federal Reserve notes have been criticized as being inflated currency. Examine this criticism.
3. What are Federal Reserve bank notes? How do they differ from Federal Reserve notes?
4. What is the purpose of the issue of Federal Reserve bank notes?
5. What provision is made for the retirement of bonds to secure National bank notes?
6. What is the basis for estimating the cost of keeping reserves?
7. Compare the cost of keeping reserves of a Reserve City bank under the National Banking Act and under the Federal Reserve System, assuming that the Reserve City bank deposits contain ten per cent. time, and ninety per cent. demand, deposits.

8. Explain the way in which the directors of the Federal Reserve Banks can recognize the signs of an approaching crisis.

9. What steps can be taken to avert the crisis?

10. How can reserves be mobilized under the Federal Reserve System?

11. What means are adopted by the Federal Reserve Board to control the operation of the member banks?

12. Explain *window dressing*.

13. Describe the essential differences between the Canadian Banking System and the Federal Reserve System?

14. What equivalent for a re-discount market is possessed by the Canadian banks?

15. How are Canadian banks related to one another?

16. How are Canadian bank notes secured?

17. How are they redeemed?

18. What happens in case a bank fails?

CHAPTER XIX

1. What is the essential purpose served by money in trade?

2. Why is money necessary?

3. Describe a complete transaction in trade showing how standard money is eliminated and the credit system used.

4. What is a Trade Acceptance and how is it used?

5. What are the advantages of the use of Trade Acceptances?

6. "Banks act as the flux of trade." Explain this.

CHAPTER XX

1. Distinguish between the political and the economic point of view in defining the word *nation*.

2. Do domestic and international trade differ in any essential?
3. What is meant by the law of comparative cost?
4. International trade has been called the territorial division of labor. What is meant by this?
5. What are the benefits of international trade?
6. Are there any disadvantages?
7. What effect had the war upon the international trade of the United States?
8. Give a concrete illustration to show the factors that enter into the determination of international value.
9. Steel rails are both exported from and imported into the United States. How is this?
10. How is the equation of price in international trade maintained?
11. How does the cost of transport affect international prices?
12. The wealth of a country used to be considered as depending upon the amount of the precious metals possessed by that country. Criticize this idea.
13. Explain the theory of the Balance of Trade.
14. What is meant by the phrase "equation of satisfaction"?
15. Explain the theory of the equation of indebtedness.
16. What is meant by the expression "invisible exports or imports"? Illustrate.
17. In a given year a country is said to have an adverse balance of trade. Is this necessarily an indication that the country is in an unsafe economic condition?

CHAPTER XXI

1. A storekeeper in Seattle, Washington, purchases, direct from the factory, a cash register from the National Cash Register Company, Dayton, Ohio. What different methods of payment may he adopt?

2. What elements enter into the cost of shipping gold or currency?

3. When does it pay to ship currency instead of using a draft?

4. What is a correspondent bank? What purpose does it serve?

5. A citizen in Tucson, Arizona, wishes to make a payment to a dealer in Kansas City, Missouri. Upon what city is his draft likely to be drawn? Why?

6. Explain *mint par*.

7. What is the *mint par* of exchange of the English pound?

8. What expenses must be considered in shipping gold from the United States to England?

9. What are the *gold points*?

10. Is there any difference between the theoretical and the practical gold points?

11. What is meant by *Sterling Exchange*?

12. Why is Sterling Exchange of so great importance in Foreign Trade?

13. What is a *Documented Bill*?

14. Why is the Bill of Lading essential to the Documented Bill?

15. What is a *Letter of Credit*?

16. Explain the whole process of financing a shipment from Buenos Aires, Argentina, to New York, assuming that Sterling Exchange is used.

17. How does the Acceptance differ from the Documented Bill?

18. What is meant by the *Discount Market*?

19. How is a draft discounted?

20. What is a *Finance Bill*?

21. Explain the difference between a Finance Bill and a Commercial Bill.

22. Why are Finance Bills necessary?

23. State some of the circumstances which help to determine the rate of exchange.

24. Why should a higher rate of exchange rule for cable transfers than for sixty-day paper?

25. Explain the effect of interest rates on the rate of exchange.

26. Discuss the causes of gold movements.

27. Has the Balance of Trade any real influence over gold movements?

28. What is meant by *Arbitrage*?

CHAPTER XXII

1. Distinguish between revenue and protective duties. Give examples.

2. Distinguish between direct and indirect taxation. Give examples.

3. Discuss the effect of protective duties on home prices.

4. Is the price of a commodity necessarily increased by the whole amount of the duty when a protective tax is imposed? State three possible situations.

5. Give a full account of the argument in favor of protecting young industries.

6. Reply to the argument given in answer to question 5.

7. How does the law of comparative cost come into the discussion of protection of young industries?

8. When would you say that a young industry has reached its majority?

9. What usually happens to the agreements in favor of protecting an industry when this industry can no longer be considered young?

10. What is meant by the *National System*? Give a full statement making the argument as strong as possible.

11. Reply to the above argument.
12. State fully the mercantilist argument.
13. Answer the above argument.
14. Distinguish between high wages and high labor cost. Are the two necessarily or commonly synonymous?
15. Discuss the cheap labor argument.
16. Explain the meaning of *dumping*.
17. What conditions are necessary before dumping can be successful?
18. Is dumping a permanent method of securing foreign trade?
19. Sum up the arguments pro and con in regard to Protection and Free Trade.
20. What difficulties would arise if an absolutely Free Trade System were to be suddenly established in the United States?
21. Are these difficulties a sufficient answer to the Free Trade arguments?

CHAPTER XXIII

1. What difficulties lie in the way of transferring fixed capital from one industry to another?
2. What is meant by *Investment*?
3. What is the *flow of capital*?
4. State some of the chief considerations which determine the investment of capital.
5. Describe the difference between par and investment price. Illustrate.
6. What is meant by *discount* and *premium*?
7. "In every aspect of business the future is, to a certain extent, discounted." Explain this sentence.
8. State the difference between investment and speculation.
9. Is it possible to eliminate the element of risk from business?

10. What is meant by *speculative investment*? Illustrate.
11. Describe the method of stock exchange speculation.
12. What is a *margin*?
13. What is *collateral*?
14. Describe the process of *short-selling*.
15. Speculation is said sometimes to assist in stabilizing prices. State and criticize this argument.
16. What is meant by *bearing stock*?
17. How do stock manipulators make use of the psychological effect of price movements?

CHAPTER XXIV

1. Distinguish between the mechanical process of distributing products and distribution as an economic problem.

2. Among what three classes are the results of production distributed?

3. Distinguish between impersonal or functional distribution and the personal distribution of wealth.

4. Has the science of ethics anything to do with functional distribution?

5. Explain fully the doctrine of economic rent. Could you use a diagram similar to Figure I, page 74, to illustrate this doctrine?

6. What is meant by the *margin of cultivation*?

7. What is the equivalent of the margin of cultivation in urban districts?

8. How does the doctrine of rent apply to the case of a farmer who owns his farm?

9. Distinguish between *urban* and *agricultural* rents.

10. What factors enter into the determination of the "rent" paid for a residence?

11. What is meant by *rent of ability*? How is the idea related to economic rent?

12. Discuss the medieval ideas regarding payment of interest.

13. A lender receives interest on the loan because he foregoes the use of the sum loaned, and is therefore unable to make a profitable use of it himself. Discuss and criticize this statement.

14. Interest is paid because of the difference in marginal utility between a present and a future satisfaction. Explain and criticize this statement.

15. Distinguish between interest and usury.

16. Analyze the term *profits*.

17. What is meant by insurance of *non-insurable* risk?

18. What is the difference between the *objective* and the *subjective* estimate of risk? Which is usually the higher estimate?

19. To the summary analysis on page 332 there might be added to (4) a final item, (c) *Rent of opportunity*. Explain and illustrate this last item.

CHAPTER XXV

1. Discuss the common tendency to speak of "the good old days."

2. Has the general standard of living been raised or lowered since colonial days?

3. Is the present distribution of wealth satisfactory?

4. What are the four chief causes of great individual wealth?

5. Discuss each cause and state which is the most important.

6. The foundations of great wealth lie in the industry, integrity, and economy of the possessor. Discuss and criticize this statement.

7. List the chief causes of poverty.

8. Examine each cause and estimate the most important.

9. Is irregular employment a necessary producer of poverty?

10. What is meant by social *maladjustment*?

11. Discuss the relationship of thriftlessness to poverty.

12. Discuss each of the following as an incentive to search for wealth:

(a) The will to live. (b) The acquisitive instinct. (c) Emulation. (d) The will to power.

13. Admitting the evils of the present system, is it necessary to abolish the instincts mentioned in the answer to question 12 before improvement is possible?

14. Is work a blessing or an evil, or a combination of both?

15. Should work be regarded as a means to an end or an end in itself?

16. Why is it folly to ask underpaid laborers to save?

17. It is frequently said that modern methods have destroyed the spirit of craftsmanship. Is this true?

18. In what respect does the "joy of working" exist in a highly specialized factory?

19. What is meant by the organizing instinct? How can this instinct affect the work of a salesman?

20. How can the work of a draftsman make use of the creative instinct?

21. Discuss the value and disadvantage of the dominating spirit.

CHAPTER XXVI

1. Discuss the meanings of the word *labor*.

2. What is the modern tendency in regard to meaning of *labor*?

3. Describe labor's part in production.

4. Is it right to speak of labor as a commodity subject to the same conditions in exchange as physical commodities?

5. Criticize Nietzsche's view of labor as stated on page 358.

6. Describe the *Iron law of wages*.

7. How is the iron law affected by the belief in a minimum standard of living?

8. The Malthusian theory of population is briefly stated on page 360. Discuss this theory.

9. Distinguish between money and real wages. Why is the distinction important?

10. What are the advantages and disadvantages of time wages?

11. What are the advantages and disadvantages of piece wages?

12. Why do trade unions sometimes approve and sometimes disapprove of piece wages?

13. Explain and discuss bonus systems.

14. Criticize the ideas and workings of *Scientific Management*.

CHAPTER XXVII

1. What was the theory of *laissez faire*?

2. How did unlimited competition affect the condition of the wage earner?

3. What was the origin of labor organization?

4. Is there any real connection between the guild system and the trade union?

5. Why should the right to organize be recognized?

6. Define a trade union.

7. What is a craft-union?

8. What is the value of a national organization?

9. Discuss the analogy between the American Federation of Labor and the government of the United States.

10. Distinguish between craft and industrial union.

11. To which type does the I. W. W. belong?

12. What tendency in the labor movement is illustrated by the rise of the shop steward?

13. Discuss the question of collective bargaining.

14. What are the advantages and disadvantages of the standard wage?

15. Why do all the trade unions insist upon a standard minimum wage?

16. What are the general aims of trade unionists in regard to conditions of labor?

17. The problem of the hours of labor is being more earnestly discussed now than at any time previously. Why is this?

18. What do you think of the six-hour day proposal?

19. What is the general attitude of trade unions toward child labor?

20. Discuss the right to strike from the points of view of laborers, employers, and the public.

21. Should the prohibition of the right to strike involve the prohibition of lockouts?

22. Discuss fully the difference between arbitration and conciliation, and show the advantages and disadvantages of each.

23. How is the boycott used by trade unionists? What similar method is adopted by employers?

24. How is the union label used? What is its purpose?

25. Estimate the success of the trade union movement.

26. Do you think that workmen could afford to dissolve their unions?

27. If you believe that the right to strike should be refused to employees in public utilities, what steps do you think should be taken to protect the employees?

CHAPTER XXVIII

1. Why do apparently trivial causes arouse bitter disputes?

2. What four criticisms of social organization are made?

3. Discuss Profit Sharing.

4. Criticize the general principle of profit sharing.
5. What are the objects to be achieved by the introduction of profit sharing?
6. Profit-sharing schemes are sometimes characterized as "union-breaking schemes." Is this a just criticism?
7. How are these schemes expected to break the unions?
8. Is profit sharing a real solution of the labor problem? Give reasons for your answer.
9. What are the two chief viewpoints from which co-operation may be regarded?
10. Discuss the difference in the problems which arise between the two forms.
11. Give an outline of the organization of the Rochdale Pioneers.
12. How do jobbers and wholesalers regard small consumers' coöperative societies?
13. What methods have been adopted by the coöperative societies to secure a good, wholesale service?
14. Why has consumers' coöperation not been so successful in America as it has been in Europe?
15. What difficulties have arisen in regard to running productive coöperation?
16. Does coöperation supply the real remedy for bad distribution of wealth?
17. Why is taxation necessary?
18. What functions must be performed by government that private enterprises will not or cannot undertake?
19. What principle should be adopted in order that taxation should be equitable?
20. Why is equality of taxation not the same as equity?
21. What difficulties does the legislature find in levying taxes?
22. Describe what is meant by progressive taxation. Illustrate.

23. Why should unearned incomes be taxed at a higher rate than earned incomes?

CHAPTER XXIX

1. Name the three forms of government economic activity.

2. Why is it necessary that the laws of contract be well formulated and strictly enforced?

3. Give five examples of protective functions of government.

4. An essential difference exists between the regulation of trade by government in medieval times and at present. What is this difference?

5. Why is government regulation of the conditions of labor necessary?

6. Give examples of this regulation.

7. What variety of industry usually requires careful regulation by government?

8. State the arguments against government ownership of industry.

9. State the arguments in favor of government ownership of industry.

10. Sum up the case stated in the last two answers.

11. Why should a system be judged for its success or failure by its action in times of crisis?

12. How did the competitive system function during the war?

13. What were the reasons which led the government to undertake the control and operation of the railroads during the war?

14. Describe the government activities in creating an American Merchant Marine.

15. Could this work have been done under private enterprise?

16. Describe some of the methods used in European countries for removing the inefficiencies of the competitive systems.

CHAPTER XXX

1. What is an *utopia*?
2. What is meant by a *Dynamic Society*?
3. Why are utopias written?
4. Why have practically all communistic experiments failed?
5. Do these failures prove the impossibility of communism?
6. Ignorant people frequently believe that *socialism* means the pooling of all wealth and then a redistribution in equal portions. Does this remotely resemble a fair account of socialism?
7. Why is it difficult to define the word *socialism*?
8. What criticism do socialists make of the present system?
9. What is the socialist's idea of life?
10. Do socialists wish to abolish luxury?
11. Is the criticism that the present method of organizing industry results in waste justified?
12. What do you think of the expression "the divinity of labor"?
13. What advantages result from an increase in leisure?
14. What effect have long hours upon efficiency of labor? upon accidents?
15. Is advertising waste? What economic justification can you suggest for advertising?
16. State and explain the central idea of socialism.
17. What is meant by *revolutionary socialism*?
18. Are revolutions always to be avoided?
19. Describe the principles of *State Socialism*.
20. Can you give any illustrations of the practical working of State Socialism?

21. Is government administration uniformly worse than private?

22. Examine the chief objections to State Socialism.

23. What is *Guild Socialism*? How does it differ from State Socialism?

24. Discuss any recent suggestion for the introduction of the guild socialist idea into America.

25. What attitude should the student adopt toward suggestions for the improvement or reorganization of society?

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